

Message Text

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TO USDEL SECRETARY IMMEDIATE

S E C R E T STATE 158510 TOSEC 050137

E.O. 11652: GDS

TAGS: PFOR, AR

SUBJECT: BRIEFING MEMORANDUM: THE ARGENTINA SITUATION -
JULY 2

TO THE SECRETARY FROM ROGERS

1. MRS. PERON IS RISKING HER GOVERNMENT IN THE CURRENT
FACE-DOWN WITH LABOR PRECIPITATED BY HER ANNULMENT OF
RECENTLY NEGOTIATED WAGE INCREASES. HER OBJECTIVES APPEAR
TO BE: 1) TO BREAK THE POWER OF LABOR LEADERS WHOSE
LOYALTY TO HER AND LOPEZ REGA IS SUSPECT, AND2) TO HOLD
DOWN INFLATION WHICH HAS INCREASED TO AN ANNUAL RATE OF
MORE THAN 100 PERCENT. SHE IS GAMBLING THAT IN THE FINAL
ANALYSIS LABOR, WHICH HAS BEEN THE BACKBONE OF THE PERONIST
MOVEMENT FOR 30 YEARS, WILL NOT PROVOKE THE DOWNFALL OF THE
FIRST GOVERNMENT IT HAS ELECTED SINCE 1951.

2. THE LABOR LEADERSHIP IS IN A CORNER. TO MAINTAIN
CREDIBILITY WITH ITS RANK AND FILE, AND INDEED TO PRESERVE
THE UNITY OF THE LABOR MOVEMENT, IT NEEDS TO FORCE THE
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RESTORATION OF THE WAGE INCREASES ORIGINALLY AGREED TO AT

THE COLLECTIVE BARGAINING TABLE, OR ARRIVE AT AN ACCEPTABLE COMPROMISE. YET IF LABOR ELECTS TO OPPOSE THE

PRESIDENT WITH ALL THE MEANS AT ITS DISPOSAL, IT COULD FORCE HER OUT OF OFFICE AND IN SO DOING PRODUCE INSTITUTIONAL AND POLITICAL REPERCUSSIONS BEYOND ITS CAPACITY TO CONTROL.

3. THE CRISIS HAS ANOTHER DIMENSION. IT HAS SERVED TO CRYSTALLIZE PENT-UP ANTI-LOPEZ REGA SENTIMENT THROUGHOUT THE ARGENTINE POLITY. IN ADDITION TO MOST LABOR LEADERS, POLITICAL PARTY LEADERS, INCLUDING THE PERONISTS, ENVISAGE THE CRISIS AS AN OPPORTUNITY TO BREAK THE PERVERSIVE INFLUENCE LOPEZ REGA HAS COME TO EXERCISE. BUT GIVEN MRS. PERON'S EXTRAORDINARY DEPENDENCE ON HIM IT IS HIGHLY UNLIKELY THAT THEY CAN GET AT LOPEZ REGA WITHOUT BRINGING HER DOWN SIMULTANEOUSLY. IN RECENT WEEKS, MORE THAN AT ANY TIME IN THE PAST, IT HAS BECOME APPARENT THAT HE, NOT SHE, IS RUNNING ARGENTINA AND THAT SHE WOULD BE LOATH TO SEPARATE HERSELF WILLINGLY FROM HER MENTOR AND CONFIDANT. IF, HOWEVER, SHE DOES THE UNEXPECTED AND REMOVES LOPEZ REGA, VIGNES' STATURE COULD INCREASE.

4. THERE HAS BEEN SPECULATION ABOUT A MILITARY COUP IN ARGENTINA SINCE MRS. PERON TOOK OVER ONE YEAR AGO, BUT THE MILITARY HAS BEEN CHASTENED BY ITS REPEATED UNSUCCESSFUL EFFORTS TO GOVERN THE COUNTRY, AND BY ITS RESULTING UNPOPULARITY. MOST MILITARY OFFICERS, AND PARTICULARLY THE COMMANDER GENERAL OF THE NAVY, ALSO DESPISE LOPEZ REGA. THE MILITARY IS IN A POSITION TO ADMINISTER A COUP DE GRACE, BUT ITS INCLINATION SINCE THE ONSET OF THIS CRISIS HAS BEEN TO STAY OUT OF WHAT IS BASICALLY AN INTERNECINE PERONIST DISPUTE. SHOULD THE PRESENT SITUATION DETERIORATE AND CIVIL DISORDER ENSUE, THE MILITARY HAS THE CAPACITY TO TAKE POWER AGAIN.

5. REASON SUGGESTS THAT A COMPROMISE ON THE WAGE ISSUE CAN BE WORKED OUT AT TOP-LEVEL MEETINGS CURRENTLY IN PROGRESS, BUT ONLY AT CONSIDERABLE POLITICAL COST TO ALL CONCERNED. MRS. PERON'S COMMITMENT TO AUSTERITY

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BASED ON LABOR SECTOR SACRIFICE IS WHOLLY UNPRECEDENTED IN THE HISTORY OF PERONIST ECONOMICS, AND DESPITE THE SERIOUS MISMANAGEMENT OF THE ECONOMY IN RECENT YEARS, THE SITUATION DOES NOT APPEAR SUFFICIENTLY CRITICAL TO PREVENT HER FROM MODERATING HER POSITION. THE POLITICAL CLASH INVOLVING LOPEZ REGA AND THE LABOR LEADERS IS MORE DANGEROUS. THE EFFORTS OF EACH SIDE

ARE CLEARLY DESIGNED TO SMASH THE POLITICAL POWER OF THE OTHER. IN THESE CIRCUMSTANCES, COMPROMISE IS DIFFICULT, AND SUSPICION AND ACRIMONY WILL PERSIST EVEN IF THE IMMEDIATE CRISIS IS OVERCOME. IN ANY EVENT, ARGENTINA WILL HAVE TO SORT OUT ITS INTERNAL PROBLEMS BEFORE IT CAN AGAIN PRETEND TO A LEADERSHIP ROLE IN THE HEMISPHERE.

6. OUR OVERALL BILATERAL RELATIONS WITH MRS. PERON'S GOVERNMENT HAVE BEEN FAR BETTER THAN TRADITIONALLY IS THE CASE WITH ARGENTINA. PERHAPS MORE IMPORTANTLY, HER GOVERNMENT HAS COOPERATED WITH US IN A CONSTRUCTIVE MANNER IN INTER-AMERICAN AND WORLD AFFAIRS. WE BELIEVE THAT HER NEW ECONOMIC AUSTERITY PROGRAM, OF WHICH THE WAGE INCREASE ROLL BACK IS AN ESSENTIAL ASPECT, IS AN INTELLIGENT APPROACH TO THE COUNTRY'S PREDICAMENT. IF MRS. PERON SUCCEEDS IN MAKING IT STICK, IT WILL STRENGTHEN ARGENTINA'S INTERNATIONAL ECONOMIC POSITION. THE PROGRAM ALSO REVERSES THE TRADITIONALLY HOSTILE PERONIST ATTITUDE TOWARD FOREIGN INVESTMENT, AND INCREASES THE OPPORTUNITY FOR FAVORABLE RESOLUTION OF SEVERAL OUTSTANDING PROBLEMS CURRENTLY AFFECTING U.S. COMPANIES WITH POTENTIAL FOR DAMAGING BILATERAL RELATIONS. SHOULD LABOR PRESSURE PREVENT MRS. PERON, OR ANY SUCCESSOR, FROM IMPOSING A MEASURE OF AUSTERITY, ARGENTINA'S ECONOMIC SITUATION WOULD DETERIORATE FURTHER AND WOULD PROBABLY CREATE FINANCIAL TRADE AND INVESTMENT PROBLEMS FOR THE U.S.

7. THERE IS NO REASON TO BELIEVE THAT A RETURN TO A MILITARY GOVERNMENT WOULD SERVE OUR INTERESTS OR THOSE OF ARGENTINA. THERE IS NOTHING IN ARGENTINA'S PAST HISTORY TO INDICATE THAT A MILITARY REGIME WOULD BE ABLE TO RESOLVE THE NATION'S SERIOUS ECONOMIC PROBLEMS,

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AND IT IS UNLIKELY THAT OUR RELATIONS WITH ARGENTINA WOULD BE ENHANCED. IF MRS. PERON GOES, SO WILL VIGNES. HOWEVER, THE SENIOR RANKS OF THE MILITARY ARE NOW DOMINATED BY OFFICERS FAVORABLY DISPOSED TOWARD WESTERN VALUES AND NORMS, AND WE WOULD PROBABLY FARE REASONABLY WELL WITH A MILITARY REGIME.

8. WE HAVE THUS FAR CONSCIOUSLY AVOIDED IDENTIFICATION WITH ANY INDIVIDUALS OR POLICY LINE. TO REINFORCE THAT I INSTRUCTED BOB HILL TO REFRAIN FROM RAISING OUR INVESTMENT PROBLEMS WITH LOPEZ REGA, OR THE NEW MINISTER OF ECONOMY UNTIL THE SITUATION CLARIFIES. SISCO

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